



DEVELOPMENT — MANAGEMENT — CONSTRUCTION

Thomas E. Schiff
Executive Vice President / General Counsel

Via FedEx and Email

July 12, 2012

Mr. Don Geisinger,
Senior Real Property Agent
Los Angeles County Department of Beaches & Harbors
13837 Fiji Way
Marina del Rey, CA 90292

Re: Bay Club – Net Proceeds Share Calculation

Dear Don:

This letter concerns the Renewal of Option to Amend Lease Agreement (Parcel 8T) dated October 18, 2011 and entered into between the County of Los Angeles and NF Marina, LP (the "Option Agreement"). Capitalized terms used but not defined in this letter are defined in the Option Agreement. All section references in this letter are to the Option Agreement.

This letter serves as the "Calculation Notice" referred to in Section 6.2. Under that Section, a Calculation Notice must be delivered to the County that sets forth the "Net Proceeds Share" anticipated to be derived from certain transfers. These transfers would include the presently contemplated leasehold transfer from NF Marina, LP to an affiliate of Archstone.

Section 6.3 provides that the Net Proceeds Share will be the greater of (a) or (b) below, where:

(a) equals the lesser of (i) the Net Transfer Proceeds from the Change of Ownership or (ii) 2% of the Gross Transfer Proceeds from the Change of Ownership; and

(b) equals 8% of the Net Transfer Proceeds from the Change of Ownership.

Therefore, the three alternative amounts described in (a) and (b) need to be compared.

A brief examination of the three alternatives shows that alternative (a)(ii) will be the Net Proceeds Share. Alternative (a)(ii) is less than alternative (a)(i) and greater than alternative (b).

Calculation of Alternative (a)(ii)

Alternative (a)(ii) equals 2% of the Gross Transfer Proceeds from the Change in Ownership. "Gross Transfer Proceeds" are defined in Section 6.3 as the gross consideration given for the transfer. In the case of the contemplated sale of Bay Club to Archstone, the Gross Transfer Proceeds will be \$43,950,000. Two Percent of this amount equals \$879,000. Therefore, if \$879,000 is less than alternative (a)(i) and greater than alternative (b), \$879,000 will be the Net Proceeds Share.

Calculation of Alternative (a)(i)

Alternative (a)(i) is the Net Transfer Proceeds from the Change of Ownership. Net Transfer Proceeds are defined in Section 6.3.1 as the Gross Transfer Proceeds (\$43,950,000) less certain costs described in Section 6.3.1, which costs include the fixed sum of \$34,406,594 as well as other costs that include, broadly, \$200,000 of option fees, third party costs for the negotiation of the option agreement and restated lease, costs reimbursed to the County in connection with the option agreement, and hard and soft costs incurred toward the renovation of the property.

We believe that beyond the \$34,406,594 figure given above and the \$200,000 in option fees, the other costs to be deducted from Gross Transfer Proceeds in determining Net Transfer Proceeds have totaled approximately \$2,117,731 through June of this year. Therefore, through June, Net Transfer Proceeds equal the following: \$43,950,000 (the Gross Transfer Proceeds), less \$34,406,594 (the fixed amount to be deducted per Section 6.3.1.1), less \$200,000 of option fees, less another \$2,117,731 of costs, which equals \$7,225,675.

Obviously, the alternative (a)(i) figure of \$7,225,675 (through June) is hugely greater than the alternative (a)(ii) figure of \$879,000, and the lesser figure governs. In order for alternative (a)(i) to be less than alternative (a)(ii) by the closing (which must occur no later than August 31), more than \$6,346,675 of additional qualifying costs would have to be incurred (because $\$7,225,675 - \$6,346,675 = \$879,000$).

Though we do expect a substantial sum of qualifying costs to be incurred before the closing (principally for the manufacture of the components of the new anchorage improvements), we do not expect these additional costs to approach \$6 Million. If we later learn that we have significantly underestimated our pre-closing construction spending and that Net Transfer Proceeds could conceivably fall below \$879,000, we will immediately notify you and provide back-up for the qualifying deductions from the Gross Transfer Proceeds.

Calculation of Alternative (b)

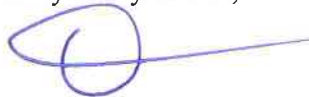
Alternative (b) equals 8% of the Net Transfer Proceeds from the Change of Ownership. Even if you completely disregard the \$2,117,731 of qualifying costs described above, Net Transfer Proceeds can never exceed \$43,950,000 less the fixed sum of \$34,406,594 per Section

6.3.1.1 less the option fees of \$200,000, which equals \$9,943,406. Eight Percent of this sum equals \$747,472.48. Therefore, even before deducting all the other costs that can be deducted from Gross Transfer Proceeds to arrive at the Net Transfer Proceeds figure (such as hard and soft construction costs), the alternative (b) amount can be no greater than \$747,472.48. Because the greater of the alternative (a)(ii) amount (\$879,000) or the alternative (b) amount (which will be less than \$747,472.48) controls, the alternative (a)(ii) amount will be the Net Proceeds Share.

Conclusion

In short, unless construction costs incurred before the closing far exceed what we anticipate, the Net Proceeds Share will be the alternative (a)(ii) amount, or \$879,000.

Very Truly Yours,

A handwritten signature in blue ink, consisting of a large, stylized 'S' followed by a horizontal line extending to the right.

Thomas E. Schiff,
Executive Vice President and General Counsel of
Decron Properties Corp., agent for
NF Marina, LP

cc (by email):

Mr. David J. Nagel
Adam Berkoff, Esq.